Report for the 2020 Budget Taskforce
January 26, 2005

Overview of Proceedings

Taskforce Membership: George Burnell, Pat Costello, Gillian Emmons, Peter Enrich, Mollie Garberg, Tom Griffiths, Paul Hamburger, Margaret Heitz, Jeanne Krieger, Paul Lapointe, Robert Lew, Patrick Mehr, Bob Rieth, Deborah Strod, Jessica Steigerwald, Madeline Quinn

The taskforce was chartered to evaluate and then propose improvements in Lexington's approach to budget creation in the areas of process, analytics and communication. Group meetings focused on understanding the process and perceived limitations in the current budget process. The taskforce divided into three sub-groups to address each key area:

Process: Enrich, Lapointe, Quinn, Rieth
Communications: Garberg, Heitz, Lew
Analytics: Emmons, Hamburger, Steigerwald, Strod

The taskforce also looked at other communities to identify alternative approaches and potential best practices. The group developed a list of questions (Appendix A) for other communities in each key area of concern and assigned individuals to each town. Answers came from two sources: budget documents of other communities and face-to-face interviews (when possible) with finance professionals in surrounding metro-west communities including Brookline, Andover, Newton and Concord.

Process Discussion & Recommendations

1) Create a Financial Policy Review Committee (FPRC)

The taskforce surveyed several communities that were similar to Lexington in size and other parameters. One of the common features of several of the communities was the existence of financial guidelines which supported and steered the budget process. These guidelines, while not etched in stone, are a serious and necessary component of good and responsible financial planning. Such a set of guidelines seemed to provide long term stability to the budget process as well as consistency in year over year financial planning. The financial guidelines seemed particularly well done by the town of Brookline, which developed a set of guidelines in 1994 and updated them in 2004. To review the guidelines last year, Brookline formed a committee of citizens who had held senior executive positions in federal, state, and local governments as well as people with diverse backgrounds with experience spanning general management to accounting and finance.

The taskforce recommends that the Board of Selectmen convene a Financial Policy Review Committee (FPRC). This committee would consist of up to 12 citizens with backgrounds in finance. The committee would not be a standing committee, but rather would be charged to assess the then-current state of the Town's finances and make recommendations regarding Lexington financial policies, including appropriate levels of "free cash" and other reserves, funding for capital improvements, and debt levels.

The FPRC would certainly review and assess fiscal policies recommended by the Appropriation and Capital Expenditures Committees and implemented by the Board of Selectmen. The task force anticipates lively dialogue between the FPRC and these entities, but does not see any conflict in the charge to the FPRC and the statutory responsibilities of the financial committees.

The following are examples of financial policies that the FPRC would consider:

A. Reserve Policies

- Budget Reserves
  As a % or an amount of prior year revenue?
  As a % or an amount from property tax revenues?
  As a % or an amount of Free Cash?
- Stabilization Fund
  What % of prior year revenue?
  When can it be used?
  How much can be withdrawn in any fiscal year?
  How is it replenished?
- Liability/Catastrophe Fund
  Needed? If so, how to determine appropriate funding level?
- Overlay Reserve
  What procedures govern the use of this reserve?

B. Free Cash Policies

- What are limitations on use of Free Cash?
- What is Free Cash policy for funding reserves?
- What is Free Cash policy for capital projects?

C. Capital Improvement Projects Policies

- What defines a Capital Improvement Project?
- What projects should be included in the capital budget?
- How far into the future should the capital budget reach?
- How is the capital budget evaluated? How are priorities established?
- What are the financing policies?

D. Debt Management Policies

- What are debt management policies?
- What priority should be placed on retaining a Moody's Aaa rating?
- Under what circumstances should the town issue bond anticipation notes?
- What should be the Town's ratio of debt to town assessed values?
- What is an appropriate level of annual tax levy debt service to the total tax levy?

In answering these questions, the FPRC should focus on statutory requirements, the specifics of Lexington's financial circumstances, and on policies and practices in other well-managed communities (e.g., Brookline).

The task force acknowledges that implementing policies concerning reserve levels and capital expenditures can have a profound short and long-term effect on the operating budget. However, the task force believes that the FPRC can serve the community well by providing an analytical, objective, and apolitical review of and recommendations for financial policies. Further, implementation of such policies will in the long run provide greater stability to the budget process.

Some on the task force felt a review of town goals and objectives should either precede or accompany the FPRC's work. One member of the taskforce advocated for a long range or strategic planning taskforce that would provide historical analysis of financial drivers and address broader questions of structural financial trends affecting town finances. Some on the taskforce recommended that the FPRC be directed to develop acceptable <u>ranges</u> rather than specific targets to allow for flexibility during times of prosperity and adverse economic conditions.

2) Improve the Collaborative Budget Development Process

The taskforce felt that delays in the Selectmen's vote on a recommended budget reduce and compress the time available for public understanding and comment. Additionally, with budget decisions delayed to February or March, the proposed budget can not be a campaign issue for candidates running for the Board of Selectmen, School Committee, or Town Meeting.

For these reasons, the task force proposes changes in the schedule and objectives of the Budget Collaboration Group *(Board of Selectmen, School Committee, Appropriation Committee, and Capital Expenditures Committee*) to improve the collaborative budget development process. The task force proposes that the Budget Collaboration Group conduct three public "milestone" meetings as outlined below, and that the Board of Selectmen and School Committee act to ensure publication by February 1 of the recommended budget for the fiscal year beginning July 1.

The task force proposes the following schedule and objectives for each "milestone" meeting of the Budget Collaboration Group.

Fiscal Policies and Budget Guidelines: Meeting No Later Than October 15

✓ Review prior year fiscal results, revenue and expense estimates for current year, and projections for budget year.

✓ Confirm fiscal policies regarding reserves, use of free cash, funding for capital improvements, etc.

✓ Articulate the shared frameworks, guidelines, and assumptions for preparing the school and municipal operating and capital budgets.

✓ Confirm schedule for remaining Budget Collaboration Group meetings.

Proposed Budget Presentations: Meeting No Later Than December 15

✓ School Committee and Board of Selectmen present proposed operating and capital budgets developed within frameworks previously agreed to.

✓ Update revenue estimates and changes in non-discretionary budget items, as necessary.

Recommended Budget Presentation: No Later Than January 15

✓ Selectmen present proposed operating and capital budget.

✓ Consensus reached by Board of Selectmen and School Committee on recommended budget.

Board of Selectmen and School Committee Budget Votes: No Later Than January 22

Voted Budget Published and Circulated with Town Meeting Warrant: No Later Than February 1

The budget process committee initially proposed that available funds be allocated to the schools and municipal sectors at the October milestone meeting. This proposal provoked lively debate. Advocates suggested that doing so would allow for preparing realistic proposed budgets, enable professional staff to focus on the challenges posed by likely resource constraints, and minimize the stress of prolonged consideration of programs that would very likely have to be reduced or eliminated. Others expressed concern that the early allocation of funds would undermine the current collaborative process, prevent appropriate prioritizing of school and municipal needs in balancing the budget, and unduly tax school staff in September and October shortly after the schools open. A member further suggested that the interim budgets in place on February 1st are adequate for the purpose proposed, are the means for dialog, and a budget published closer to town meeting better reflects the results of said dialog.

Communication Discussion & Recommendations

Implementation of a Comprehensive Budget Communication Plan for the Town

The taskforce felt that a more easily accessed, timely, accurate and pertinent set of budget documents and a plan to disseminate budget information might mitigate potential divisiveness among and between budget committees and constituents. Over the past several years, barriers to communication have resulted in perceived drops in government accountability and increased levels of distrust for government and the budget process among Lexington citizens.

Therefore the task force proposes the implementation of a comprehensive communications plan for the town to disseminate budget information in a timely and relevant fashion continuously and not just in override years. This plan would ultimately be the responsibility of the Board of Selectmen who would in turn establish on-going, operational ownership.

The taskforce recognizes that some of the items on this list may require funding and will compete with other services for resources. However, the majority of the taskforce believes that a comprehensive, on-going communications plan forms the foundation for community trust and involvement in government and places the town in a stronger position to forward override votes as warranted.

This communication plan should include:

A. Undergoing an extensive **revamp of the website**. On-going ownership should be established with an eye to insuring the website's continued importance relative to other duties and to afford the website requisite attention.

Examples of design improvements include but are not limited to a website design that reflects the needs of the end user. There might be different click-through for residential users versus commercial users for example. The website could also serve as a repository for questions and answers for the citizens and should have a contact link for direct email communication. Additionally, linkages should be provided to more detailed sources of information on each topic.

B. The creation of an **email list server** to citizenry for updates on budget process, progress and meeting notification.

C. **A media plan** that includes the use of the Minuteman and Colonial Times for disseminating budget information and meetings.

D. Enlisting local organizations to sponsor **educational forums** (TMMA, PTA, League of Women Voters, Stand for Children) regularly scheduled and executed not just in override years. For example, the TMMA might host an annual budget discussion with question and answer that is open to the public.

E. The maintenance and strengthening of existing **educational documents or single-page fact sheets** and creation of additional fact sheets as necessary. These could be made available in print and on the town website. Examples would include:

- Components and projections of revenues (e.g. real estate taxes, state funds, fees… etc.) and operating expenditures.
- Role of Proposition 2 ½, overrides and debt exclusions.
- Explanations of and projections for expenditures.
- Explanation of Moody's ratings.

F. The creation of a **budget document as a template** (such as that used by Andover or Newton) with greater detail for each department and with reader-friendly graphics which is *consistently reproduced* year-after-year. This insures the reader ease in making comparisons over time.

G. Distribution of a **community-wide letter from officials** explaining in lay terms the proposed budget that is to be considered by Town Meeting. This letter would explain the town's current fiscal position and articulate policy issues related to it.

H. Tax Bill Educational Insert to raise the awareness of citizens of the existence of resources for further information on the budget and their ability to provide input.

Analytics Discussion & Recommendations

Creation of a Metrics Review Committee (MRC)

Many of the active participants in the budget process have developed a deep understanding of Lexington's financial condition and operations and how Lexington compares to comparable communities. These groups and individuals have used this understanding to develop frameworks and metrics for making the recommendations, decisions and tradeoffs that are a part of the fiscal process every year. Some of these frameworks and metrics differ from group to group. Some are common but are neither clearly articulated nor easily available in published documents or on the web. Frameworks are not well understood by many of those outside the budget process.

Outside of Lexington, the taskforce investigated the frameworks and metrics used in other communities. Many communities generate different frameworks and metrics depending on the audience. Andover sends out high level summary metrics in letters to the community and provides detailed, historical trends of services by department within each departmental budget request. Newton's budget details historical cost information by department.

Careful, strategic thought is required to decide which metrics to generate in creating a framework for Lexington. For this reason, the taskforce recommends the creation of a Metrics Review Committee (MRC). This committee would be a one-time committee, specially chartered to develop key metrics separately from the budget process and include representatives from governing boards (town and school), professional staff (town and school) and members of the community.

A. Develop Key, High Level Metrics
The Metric Review Committee (MRC) should develop key, high level metrics that illustrate our progress toward meeting the Town's goals, report where we stand relative to key indicators (such as inflation indices) and compare Lexington to other communities.

Through previous 2020 task force groups and town-wide strategic planning efforts, Lexington has worked to develop a clear sense of values and goals, and has articulated these five:

- Fiscally sound
- Excellent schools
- Open space
- Public safety (fire and police)
- Affordability

Sample metrics the MRC should consider in determining Lexington's progress toward these goals could include but are not limited to:

- Is the town fiscally sound and financially well managed?
  - Ratio of reserves (rainy day funds) to annual revenues
  - Bond rating
  - Analysis of selected "expense" trends (relative to comparable towns and businesses) (for example, employee health care costs, utility costs)
- Are we maintaining the excellence of our schools?
  - Educational spending per student
  - Average teacher salary (relative to comparable towns)
- Are we moving toward our open space goals?
  - Ratio of open space to total (relative to comparable towns)
- Do we have the right levels of staff, equipment and facilities to provide for the health and safety of our population?
  - Time required to respond to a fire
  - Police officers per capita
- How are property taxes and town fees affecting the relative affordability of our town?
  - Residential tax rate (relative to comparable towns)
  - Average single family tax bill (including service fees such as water and sewer charges) (relative to comparable towns)

B. Develop Measures of Cost and Quality

This taskforce recommends that the MRC review the town's initiatives to include measures of cost and quality of department level services offered in its detailed budget documents and on its website. Many on the taskforce felt that these detailed measures help to build understanding, increase accountability and support town management in its self-evaluation and continuous improvement processes. Some on this taskforce were concerned that department level metrics can shift the focus of Town Meeting onto the minutia of departmental management and away from broader discussions. Therefore, the MRC should carefully weigh these considerations in their deliberations.

The taskforce uncovered numerous resources to be used by the MRC in their deliberations. Two resources for use in determining reporting metrics are the Governmental Accounting Standards Board (Appendix B) and the Municipal Yardstick produced by a consulting firm called Municipal Benchmarking LLC (Appendix C). Finally, Appendix D outlines linkages to other town websites.

Appendix A
Research Questions for Other Communities

Demographics

a. Population

b. School-age population

c. Income

d. Total property values

e. Tax rate

f. Proposition 2 1/2 ceiling

g. Override history (amount, timing and format -- bundled, unbundled)

2. Supporting documents to gather

a. Last year's budget

~~~~~ b. Present budget

~~~~~ c. Published annual report

~~~~~ d. By-laws

~~~~~ e. A sample tax bill insert (if any)

3. Process questions

~~~~~ a. Who are the basic parties involved in the budget process?

~~~~~ b. What is the basic timeline for the budget process? (like Michael Young's)

~~~~~~c. What are the basic steps? (like Michael Young's)

d. What is the first step, who begins the process, and when does it begin in relation to your town elections?

~~~~~~e. What parties are involved in each step?

~~~~~~f. How is information disseminated at each step?

~~~~~~g. What role does citizen input play at each step?

~~~~~~h. Is there room for department input at each step?

i. How do you set goals as you enter the budget process (goals for budget outcomes, goals for the process)?

j. How do you assess whether your budget meets these goals? Who checks and how often?

~~~~~~k. How do you do long-range planning (operational and capital)?

~~~~~ l. Do you use strategic audit?

~~~~~~m. Do you use any formal method to achieve continuous improvement?

~~~~~~n. Do you bench-mark? If so, against which communities and for what items?

~~~~~~o. Who are the ultimate decision-makers on budget matters?

4. Communication questions

a. How do you communicate budget decisions? (Method and timing.)

b. How do you keep citizens engaged in the budget process?

c. How do you talk about tax bills and their impact (tax bill insert?)

d. Who is responsible for communicating budget information to the community?

e. Who issues budget documents? Letters? Meeting notices?

f. Who maintains the website?

g. Who maintains meeting minutes?

h. How much does the town spend on reporting and communicating?

Appendix B
Governmental Accounting Standards Board Resource Materials

The Governmental Accounting Standards Board (GASB) sets forth the standards that state and local governments must follow in their accounting and financial reporting. The GASB's mission is "to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports."

In recent years performance measurement has been an area of emphasis for the GASB. New standards have been issued requiring state and local governments to communicate their service efforts and accomplishments and setting forth standards for effective communication. The GASB website on service efforts and accomplishments is http://www.seagov.org, and contains examples of effective communication materials and projects. A recent special report developed with funding from the Sloan Foundation on effective communication of service efforts and accomplishments is available at http://www.seagov.org/sea_gasb_project/criteria_summary.pdf.

Appendix C
Municipal Yardstick Resource Materials

This taskforce discovered that several other communities purchase a report called the Municipal Yardstick: Revenue, Expenditure, Staffing, Salary and Debt Comparison created by a consulting group called Municipal Benchmarking LLC in Waltham (www.municipalbenchmarking.com). The report compares a town to a customized select peer group on a variety of measures. The information comes primarily from the DOR and DOE databases. The towns that use this report do not rely solely on it but rather augment it by creating comparisons with internal data as well. The availability of rich information of this type would ease the burden of developing metrics and its independence could add to credibility; our research also indicates that the service is reasonably affordable.

Alternatively, this taskforce did note that Municipal Yardstick data comes primarily from published sources; an independent group of volunteer citizens with skills in this area could also be a resource for the development of benchmark data for Lexington. Regardless of whether metrics are purchased or created internally, the MRC would be asked to develop a list of which communities should be used for comparison.

Appendix D
Websites

Town of Andover - www.andoverma.gov
Town of Brookline - www.town.brookline.ma.us
Town of Newton - www.ci.newton.ma.us
Town of Wellesley - www.ci.wellesley.ma.us
Town of Concord - www.concordnet.org